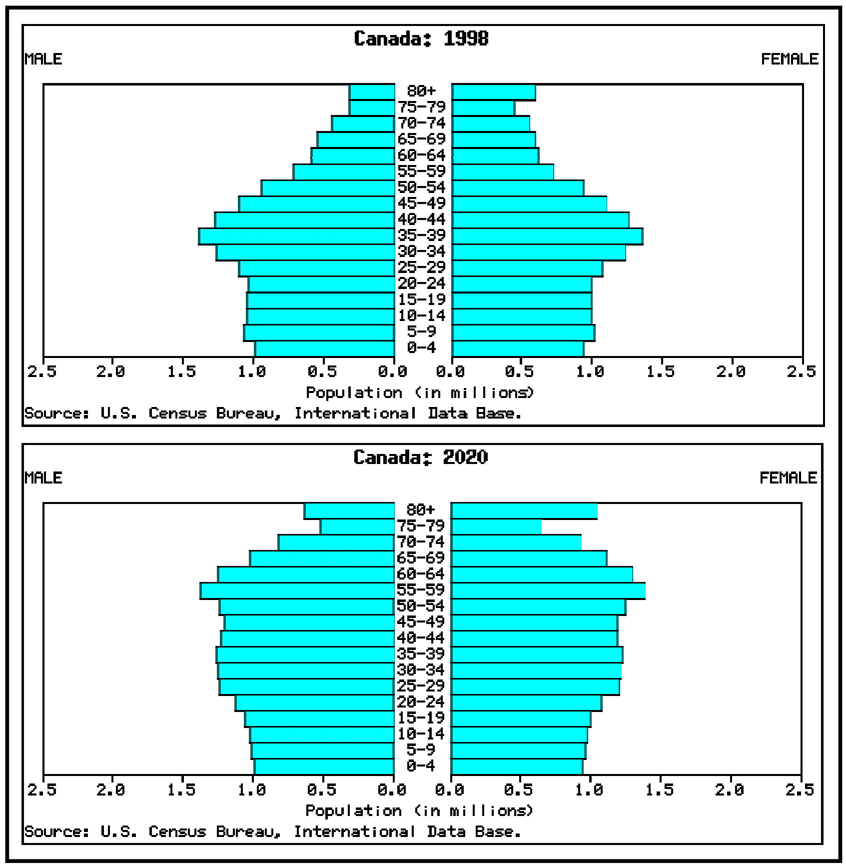
Canada

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-contribution		♦ Defined-contribution or defined-benefit plans, depending on sponsor
Participation:	♦ Mandatory		♦ Voluntary
Management:	♦ Publicly-managed		♦ Privately-managed
Financing:	♦ PAYGO		♦ Fully-funded
Coverage:	♦ All employees (including self-employed) in all Canadian territories and provinces (except Quebec)		♦ Participating employees
Eligibility:	♦ Retirement age is 65 however benefits may be paid as early as 60 and as late as 70.		♦ Age 65

Challenges Facing Pension System

- ❑ Demographic shifts
- ❑ Economic conditions
- ❑ Generous benefits



Summary of Current System

The Canadian pension system consists of a public pension system coupled with voluntary individual retirement accounts. The Old Age Security (OAS) Program and the Canada Pension Plan (CPP) comprise the public pension system, or pillar one. The OAS Program provides basic pension benefits to all individuals who have satisfied residency requirements, regardless of means. Additional benefits provided by the OAS Program include Guaranteed Income Supplement to individuals with little or no income and Spouse's Allowance for widows or couples living on pension benefits of only one spouse. Full benefits are extended to individuals who have lived in Canada at least 40 years, and special provisions apply for individuals who were Canadian residents and over age 25 on July 1, 1977. Partial pensions may available to individuals who do not meet the requirements for full OAS pensions. OAS pensions may be obtained when an individual reaches age 65. The pension benefit is a flat amount, and is adjusted quarterly according to the Consumer Price Index (CPI). Funding for benefits comes from general tax revenues.

The second component of the first pillar is called the CPP which covers all Canadian provinces (except Quebec which has instituted its own pension plan similar to the CPP) and territories. The CPP is a mandatory, earnings-related pension program that relies on contributions from both employers and employees. It is financed on a pay-as-you-go (PAYGO) basis. This system covers the working population (aged 18 to 70 years) including self-employed individuals. Contributions to the CPP amount to 6.1 percent, which is shared equally by

Canada

SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	30,675	36,897
Life Expectancy at Birth (Years)	79.16	81.49
Total Fertility Rate (Child Born per Woman)	1.65	1.64
Age Dependency Ratio (percent)	25.7	42.6
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	1.2	0.8

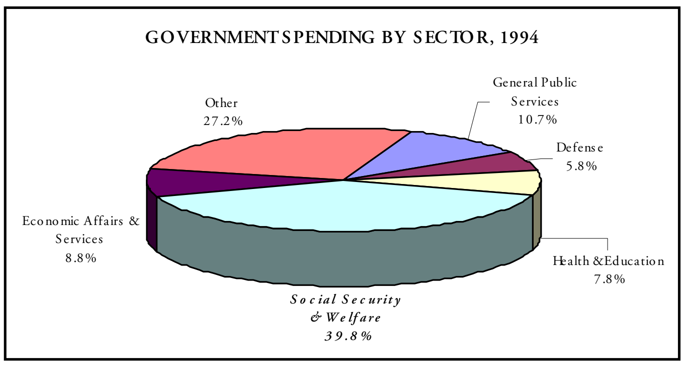
Source: U.S. Bureau of the Census. International Data Base.

Economic	*1996*
GNP (PPP in billions)[1]	640.6
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	1.7
GNP Per Capita (in PPP)[1]	21,380
Inflation Rate (percent)[2]	1.6
Labor Force Participation Rate (percent)[3]	53.4
Unemployment Rate (percent)[3]	9.7

Source: [1]World Bank; [2]IMF; [3]International Labour Office.

Pension	*1997*
System Dependency Ratio, 1996 (percent)	n/a
Employee Payroll Tax Contributions for Pensions (percent)	3.0
Employer Payroll Tax Contributions for Pensions (percent)	3.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP (percent)	n/a

Source: Canada Pension Plan.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

employers and employees. Self-employed workers must contribute the entire amount. These contributions cover retirement, disability, survivors' and death benefits. Full benefits are available at the retirement age of 65 provided that an individual has contributed to the CPP at least one calendar year during their work history.

Adjusted benefits may begin as early as age 60 and at late as age 70. The pension benefit is 25 percent of career average pensionable earning. Pensionable earning is defined as earnings in excess of the Year's Basic Exemption (which was C$3,500 in 1998) and up to the Year's Maximum Pensionable Earnings (which was C$36,900 in 1998). These benefits are adjusted annually to reflect changes in cost of living.

The third pillar consists of private retirement savings. Private plans are universally offered throughout Canada. Generally, registered pension plans are subject to federal and provincial laws and regulations. Employee pension plans are usually sponsored by employers or unions. It was estimated that about 35 percent of workers were covered by registered pension plans in 1993. Defined-benefit plans are most prevalent type of plan offered by employers. Finally, workers are able to contribute to personal retirement savings plans.

Challenges Facing Pension System

Demographic and economic factors underlie the need for reforming the pension system. Canadians are living longer; in 2020, life expectancy will be 81 years old (compared to 79 years in 1998). This causes pressure on the pension system as the elderly receive benefits over a longer period of time. Other demographic factors affecting the viability of the pension system include the aging of the Canadian population coupled with lower birth rates. Currently, about five workers support each pensioner however by 2030, only three workers will support each pensioner. Other factors affecting the pension system have been the richening of social security benefits overtime, especially disability benefits. Economic conditions have also affected the financing of the pension plan. The country has experienced slower growth in labor productivity and labor force participation, directly impacting total wage and salary output, which affects the contribution base.

Pension Reform Efforts

In September 1997, the government approved changes to the CPP. Effective January 1998, these changes move the current PAYGO financing system to fuller funding by raising the contribution burden; introduces a new investment policy to maximize returns on the reserve fund; and, slows growth by tightening the administration of benefits. The contribution amount is scheduled to increase to 9.9 percent in 2003, remain steady and then increase to 14.2 percent in 2030. The reserve funds will be invested in diversified portfolio of securities. Changes have also been introduced in the administration of benefits. For example, the formula for adjusting previous earnings in calculating pension will be based on the average pensionable earnings in the last five instead of the last three years prior to starting the pension.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		
Formulation of proposals	✓		
Development of draft legislation	✓		
Introduction of legislation by parliament	✓		
Review of legislation by parliament	✓		
Passage of legislation by parliament	✓		
Implementation of legislation			